

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Flat River Community Library	County Montcalm
Fiscal Year End 6/30/07	Opinion Date 10/19/07	Date Audit Report Submitted to State 11/15/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Flat River Community Library  
Greenville, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Flat River Community Library

Greenville, Michigan

June 30, 2007

BOARD OF TRUSTEES

Vanessa Marr	President
Ann Ross	Vice-President
Carole Cole	Secretary
Jim Beckman	Treasurer
Cindy Lillie	Member
Mary Moroney	Member
Ann Roberts	Member
David Meyers	Member

Flat River Community Library

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
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**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees  
Flat River Community Library  
Greenville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining funds information of the Flat River Community Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Flat River Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining funds information of the Flat River Community Library as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 19, 2007

Flat River Community Library  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2007

As management of Flat River Community Library, we offer this discussion and analysis of the activities of the Library for the year ended June 30, 2007.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

**Financial Highlights**

The following represent the most significant financial highlights for the year ending June 30, 2007:

- The assets of the Library exceeded its liabilities at the end of the fiscal year by \$2,482,772 (net assets) at the government-wide level.
- The Library's total net assets increased by \$53,001 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental funds reported a combined fund balance of \$972,039.
- State aid was lower than anticipated due to state budget reductions, but penal fines and interest income were slightly higher than anticipated due to the state and national economies.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Flat River Community Library as a whole and present a longer-term view of the Library's finances.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

**The Library as a Whole**

The following table shows, in a condensed comparative format, the net assets as of June 30, 2006 and 2007.

	<u>2006</u>	<u>2007</u>
<b>Assets</b>		
Current assets	\$ 844,968	\$ 985,072
Noncurrent assets	<u>3,039,492</u>	<u>2,869,863</u>
Total assets	3,884,460	3,854,935
<b>Liabilities</b>		
Current liabilities	121,492	128,784
Noncurrent liabilities	<u>1,333,197</u>	<u>1,243,379</u>
Total liabilities	<u>1,454,689</u>	<u>1,372,163</u>

Flat River Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

**The Library as a Whole - continued**

	<u>2006</u>	<u>2007</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 1,634,492	\$ 1,544,863
Restricted for debt service	142,888	151,485
Unrestricted	<u>652,391</u>	<u>786,424</u>
Total net assets	<u>\$ 2,429,771</u>	<u>\$ 2,482,772</u>

As previously stated, the total net assets of the Flat River Community Library at the end of this fiscal year were \$2,482,772.

The following table shows the changes in net assets in a comparative format for the years ending June 30, 2006 and June 30, 2007, respectively.

	<u>2006</u>	<u>2007</u>
<b>Revenues</b>		
General revenue:		
Property taxes	\$ 636,642	\$ 674,928
State Aid	11,709	12,814
Penal Fines	101,032	113,599
Interest	16,216	27,429
Miscellaneous	362	3,089
Program Revenue:		
Charges for service	23,421	25,056
Operating grants and contributions	<u>21,496</u>	<u>46,542</u>
Total revenues	810,878	903,457
<b>Program Expenses</b>		
Library services/operations	786,729	778,653
Interest on long-term debt	<u>75,596</u>	<u>71,803</u>
Total expenses	<u>862,325</u>	<u>850,456</u>
<b>Change in Net Assets</b>	<u>\$ ( 51,447 )</u>	<u>\$ 53,001</u>

**Governmental Activities**

The Library's governmental revenues totaled \$903,457 with the greatest revenue being property taxes levied by the library. Property taxes make up approximately 74.7 percent of total governmental revenue. The Property Tax revenue increased 6.0 percent primarily due to increased taxable values.

The Library incurred expenses of \$850,456 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function, with the exception of interest expense incurred on long-term debt.

Flat River Community Library  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2007

**The Library's Funds**

The analysis of the Library's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the specific funds, not the Library as a whole. The Flat River Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities.

The Library maintains four governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Library. The General Fund, Debt Service Fund, and Capital Projects Fund are major funds for the fiscal year ended June 30, 2007 for financial reporting purposes as defined by GASB Statement No. 34.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$606,642 for the fiscal year. The Debt Service Fund pays the principal and interest as it becomes due for the Library's General Obligation Bonds payable. Total debt service for the fiscal year was \$152,470. The Capital Projects Fund is used to account for the financial resources that are used for capital maintenance of the Library. The Capital Projects Fund did not incur expenditures in this fiscal year.

The basic governmental fund financial statements can be found on pages 3 through 7 of this report.

**General Fund Budgetary Highlights**

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

Penal fines were approximately \$23,000 higher than anticipated for the fiscal year. Similarly, contributions revenue was more than \$34,000 higher than anticipated. Although the fund expenditure budget decreased from the original budget by more than \$98,000, the final budget exceeded actual expenditures by \$23,736. The budget variance was primarily in the administration function where the final budget exceeded actual expenditures by \$12,660.

**Capital Assets and Debt Administration**

At the end of the fiscal year, the Library had \$2,869,863 invested in buildings and improvements, equipment and furniture, and books, periodicals, and videos (net of accumulated depreciation). Additions to capital assets included a self-checkout kiosk, a server, and a shelving unit, totaling \$17,030 in the fiscal year ended June 30, 2007.

No debt was issued during the fiscal year. However, the Library has bonded debt for the building project of 1997 with interest and principal payment due each year. The principal and interest payments for this fiscal year totaled \$152,470.

**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Library Director at 200 West Judd Street, Greenville, Michigan 48838. Phone: 616-754-6359.

## **BASIC FINANCIAL STATEMENTS**

Flat River Community Library  
STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 551,384
Investments	238,578
Assets held by foundation	68,379
Due from other governmental units	122,102
Accrued interest receivable	<u>4,629</u>
Total current assets	985,072
Noncurrent assets	
Capital assets, net	<u>2,869,863</u>
TOTAL ASSETS	3,854,935
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	2,328
Accrued liabilities	10,705
Accrued interest	11,412
Current portion of compensated absences	14,339
Current portion of long-term debt	<u>90,000</u>
Total current liabilities	128,784
Noncurrent liabilities	
Noncurrent portion of compensated absences	8,379
Noncurrent portion of long-term debt	<u>1,235,000</u>
Total noncurrent liabilities	<u>1,243,379</u>
TOTAL LIABILITIES	<u>1,372,163</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,544,863
Restricted for debt service	151,485
Unrestricted	<u>786,424</u>
TOTAL NET ASSETS	<u><u>\$ 2,482,772</u></u>

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	\$ 778,653	\$ 25,056	\$ 46,542	\$ (707,055)
Interest on long-term debt	71,803	-	-	(71,803)
	<u>\$ 850,456</u>	<u>\$ 25,056</u>	<u>\$ 46,542</u>	(778,858)
General revenues:				
				674,928
				12,814
				113,599
				27,429
				<u>3,089</u>
			TOTAL GENERAL REVENUES	<u>831,859</u>
			CHANGE IN NET ASSETS	53,001
			Net assets, beginning of year	<u>2,429,771</u>
			Net assets, end of year	<u>\$ 2,482,772</u>

See accompanying notes to financial statements.

Flat River Community Library

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Debt Service	Capital Projects
<b>ASSETS</b>			
Cash and cash equivalents	\$ 312,806	\$ 158,268	\$ 80,310
Investments	238,578	-	-
Assets held by foundation	-	-	-
Due from other governmental units	122,102	-	-
Accrued interest receivable	-	4,629	-
Due from other funds	8,735	-	-
<b>TOTAL ASSETS</b>	<b>\$ 682,221</b>	<b>\$ 162,897</b>	<b>\$ 80,310</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,328	\$ -	\$ -
Accrued liabilities	10,705	-	-
Due to other funds	-	-	7,391
<b>TOTAL LIABILITIES</b>	<b>13,033</b>	<b>-0-</b>	<b>7,391</b>
<b>FUND BALANCES</b>			
Reserved			
Debt service	-	162,897	-
Book purchases	969	-	-
Friends fund	2,087	-	-
Compensated absences	16,834	-	-
Unreserved			
Undesignated, reported in			
General fund	649,298	-	-
Special revenue fund	-	-	-
Capital projects fund	-	-	72,919
<b>TOTAL FUND BALANCES</b>	<b>669,188</b>	<b>162,897</b>	<b>72,919</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 682,221</b>	<b>\$ 162,897</b>	<b>\$ 80,310</b>

See accompanying notes to financial statements.

Nonmajor Governmental Fund Memorial Book	Total Governmental Funds
\$ -	\$ 551,384
-	238,578
68,379	68,379
-	122,102
-	4,629
-	8,735
<u>\$ 68,379</u>	<u>\$ 993,807</u>
\$ -	\$ 2,328
-	10,705
1,344	8,735
<u>1,344</u>	<u>21,768</u>
-	162,897
-	969
-	2,087
-	16,834
-	649,298
67,035	67,035
-	72,919
<u>67,035</u>	<u>972,039</u>
<u>\$ 68,379</u>	<u>\$ 993,807</u>

Flat River Community Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2007

**Total fund balance - governmental funds** \$ 972,039

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 4,759,083	
Accumulated depreciation is	<u>(1,889,220)</u>	
Capital assets, net		2,869,863

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.  
Long-term liabilities at year-end consist of:

Direct obligations	1,325,000	
Accrued interest payable	11,412	
Compensated absences	<u>22,718</u>	
		<u>(1,359,130)</u>

**Net assets of governmental activities** \$ 2,482,772

See accompanying notes to financial statements.

Flat River Community Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Debt Service	Capital Projects
REVENUES			
Property taxes	\$ 522,458	\$ 152,470	\$ -
Intergovernmental	12,814	-	-
Fines and forfeits	138,415	-	-
Interest	6,837	7,930	2,414
Charges for service	240	-	-
Other			
Contributions	45,292	-	-
Other	3,089	-	-
TOTAL REVENUES	729,145	160,400	2,414
EXPENDITURES			
Current			
Recreation and cultural	542,592	-	-
Capital outlay	64,050	-	-
Debt service	-	152,470	-
TOTAL EXPENDITURES	606,642	152,470	-0-
NET CHANGE IN FUND BALANCES	122,503	7,930	2,414
Fund balances, beginning of year	546,685	154,967	70,505
Fund balances, end of year	\$ 669,188	\$ 162,897	\$ 72,919

See accompanying notes to financial statements.

Nonmajor Governmental Fund Memorial Book	Total Governmental Funds
\$ -	\$ 674,928
-	12,814
-	138,415
10,248	27,429
-	240
1,250	46,542
-	3,089
11,498	903,457
1,526	544,118
-	64,050
-	152,470
1,526	760,638
9,972	142,819
57,063	829,220
\$ 67,035	\$ 972,039

Flat River Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

**Net change in fund balances - total governmental funds** **\$ 142,819**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 17,030	
Depreciation expense	<u>(186,659)</u>	
Excess of depreciation expense over capital outlay		(169,629)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	80,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	667	
(Increase) in accrued compensated absences	<u>(856)</u>	
		<u>(189)</u>

<b>Change in net assets of governmental activities</b>	<b><u>\$ 53,001</u></b>
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See accompanying notes to financial statements.

Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Under Public Act 24 of 1989, the City of Greenville, and the Townships of Fairplain, Eureka, and Montcalm created the Flat River Community Library on October 29, 1996, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. In addition, Montcalm County collects and distributes countywide taxes to the seven (7) District Libraries of the County. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board which is comprised of eight (8) members, two (2) appointed by the City of Greenville, two (2) appointed by the Township of Fairplain, two (2) appointed by the Township of Eureka, and two (2) appointed by the Township of Montcalm.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Flat River Community Library (primary government). The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library except for those that are required to be accounted for in another fund.
- b. The Debt Service Fund is used to account for the financial resources that are used for the retirement of long-term debt.
- c. The Capital Project Fund is used to account for the financial resources that are used for capital maintenance of the Library.

Flat River Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

**5. Budgets and Budgetary Accounting**

The General Fund budget shown as required supplementary information was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library Director prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure account level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

**6. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents consist of money market checking and savings accounts and certificates of deposit. All certificates are stated at cost, which approximates fair value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

Flat River Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Property Taxes**

The participating City, Townships, and Montcalm County levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year the City and Townships settle their delinquent taxes with the respective County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Montcalm County. Near the end of the fiscal year the County remits the Library's portion of the countywide levy of .4407 mills. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the Library. The voters approved a levy of 1 mill, 0.6765 mills for operating, and 0.3235 mills for debt. For the year ended June 30, 2007, the Library levied 1 mill in addition to the countywide levy.

**8. Interfund Transactions**

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

**9. Capital Assets**

Capital assets include buildings and additions, equipment and furniture, and books, periodicals, and videos, and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. In the prior year, the Library decided to discontinue capitalizing its collection of books, periodicals, and videos. Capital assets are those with a cost greater than \$1,500 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment and furniture	3 - 20 years
Buildings and additions	40 years

**10. Long-term Liabilities**

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Flat River Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**11. Vacation and Sick Leave**

Library employees are granted vacation and sick leave in varying amounts based on length of service. Vacation must be used by December 31 or it is forfeited. Employees can accumulate up to 120 sick days. Accumulations in excess of that amount are paid at 50% of the unused portion as of December 31 at the employee's pay rate. Upon termination, employees are paid on a prorated basis for unused vacation of that year at their current rates. Upon termination of employment after 10 years of service, or upon retirement or death of an employee, payments will be for 50% of accumulated sick leave for non-union employees and for 100% of accumulated sick leave for union employees who started before July 1, 1997.

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

**12. Comparative Data**

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The Library cash, cash equivalents, and investments consist of a common checking account, savings, money markets, and certificates of deposit, and are reported as cash, cash equivalents, and investments in the basic financial statements.

In accordance with Michigan Compiled Laws, the Flat River Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2007, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 241,672	\$ 256,779
Savings	309,616	309,616
Certificates of deposit	<u>238,578</u>	<u>241,201</u>
<b>TOTAL</b>	<b><u>\$ 789,866</u></b>	<b><u>\$ 807,596</u></b>

As of June 30, 2007, the Library's deposits were insured by the FDIC for \$200,000, and the amount of \$607,596 was uninsured and uncollateralized.

The cash and cash equivalents reported in the financial statements include \$96 in imprest cash.

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments caption in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2007:

Cash and cash equivalents	\$ 551,384
Investments	<u>238,578</u>
	<b><u>\$ 789,962</u></b>

Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at June 30, 2007:

Due to General Fund from:	
Capital Projects Fund	\$ 7,391
Nonmajor governmental fund	<u>1,344</u>
	<u>\$ 8,735</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities				
Books, periodicals, and videos	\$ 1,166,108	\$ -	\$ -	\$ 1,166,108
Buildings and additions	3,300,000	-	-	3,300,000
Equipment and furniture	<u>358,198</u>	<u>17,030</u>	<u>( 82,253 )</u>	<u>292,975</u>
Totals at historical cost	4,824,306	17,030	( 82,253 )	4,759,083
Less accumulated depreciation for:				
Books, periodicals, and videos	( 932,873 )	( 79,945 )	-	( 1,012,818 )
Buildings and additions	( 618,750 )	( 82,500 )	-	( 701,250 )
Equipment and furniture	<u>( 233,191 )</u>	<u>( 24,214 )</u>	<u>82,253</u>	<u>( 175,152 )</u>
Total accumulated depreciation	<u>( 1,784,814 )</u>	<u>( 186,659 )</u>	<u>82,253</u>	<u>( 1,889,220 )</u>
Capital assets, net	<u>\$ 3,039,492</u>	<u>\$ ( 169,629 )</u>	<u>\$ -0-</u>	<u>\$ 2,869,863</u>

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the Library for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
PRIMARY GOVERNMENT					
1997 General Obligation Bonds	\$ 1,405,000	\$ -	\$ 80,000	\$ 1,325,000	\$ 90,000
Accumulated Sick/Vacation	<u>21,862</u>	<u>856</u>	<u>-</u>	<u>22,718</u>	<u>14,339</u>
	<u>\$ 1,426,862</u>	<u>\$ 856</u>	<u>\$ 80,000</u>	<u>\$ 1,347,718</u>	<u>\$ 104,339</u>

Flat River Community Library  
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE E: LONG-TERM DEBT - CONTINUED**

Significant details regarding outstanding long term debt is presented below:

**1997 General Obligation Bonds**

\$1,800,000 Building and Site Bonds, dated August 1, 1997, due in annual installments ranging from \$90,000 to \$145,000 through May 1, 2018, with interest ranging from 5.00 to 5.25 percent, payable semi-annually. \$ 1,325,000

The annual requirement to pay the debt principal and interest outstanding for the bonds is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 90,000	\$ 68,470	\$ 158,470
2009	100,000	63,770	163,770
2010	105,000	58,970	163,970
2011	110,000	53,615	163,615
2012	115,000	48,005	163,005
2013-2017	660,000	144,719	804,719
2018	<u>145,000</u>	<u>7,613</u>	<u>152,613</u>
	<u>\$ 1,325,000</u>	<u>\$ 445,162</u>	<u>\$ 1,770,162</u>

**Accumulated Sick/Vacation**

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded as a liability in the governmental-wide financial statements, amounted to approximately \$22,718 at June 30, 2007.

**NOTE F: FUND EQUITY RESERVES**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2007:

**Fund Balances**

**General Fund**

Reserved for book purchases	\$ 969
Reserved for Friends of the Library activity	2,087
Reserved for compensated absences	<u>16,834</u>
	<u>\$ 19,890</u>

**Debt Service Fund**

Reserved for debt service	<u>\$ 162,897</u>
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Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**NOTE G: RISK MANAGEMENT**

The Library maintains commercial insurance for property, liability, bonding, and casualty losses. The Library also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

**NOTE H: ASSETS HELD BY FOUNDATION**

In April 2000, the Library entered into an agreement with the Greenville Area Community Foundation (the Foundation) to create the Flat River Community Library Fund (the Fund). In order to establish the Fund, the Library transferred cash to the Foundation in the amount of \$31,000. The purpose of the Fund is to provide funding for grants to the Library from the earnings of the assets in the Fund. The assets of the Fund shall be all those assets contributed to the Fund by the Flat River Community Library Board of Directors and by any other persons or legal entities along with all earnings attributed to such assets.

All earnings attributed to the assets of the Fund will be made available to the Flat River Community Library annually. Any earnings not so distributed will be reinvested in the assets of the Fund. The assets of the Fund may be distributed upon a special request of the Library. The market value of the Fund as of June 30, 2007, is \$68,379. These funds are invested in stocks, bonds, and other short-term securities.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Flat River Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 669,902	\$ 487,449	\$ 522,458	\$ 35,009
Intergovernmental	6,400	6,400	12,814	6,414
Fines and forfeits	107,700	107,700	138,415	30,715
Interest	3,500	3,500	6,837	3,337
Charges for services	100	100	240	140
Other				
Contributions	11,000	11,236	45,292	34,056
Other	750	2,250	3,089	839
TOTAL REVENUES	799,352	618,635	729,145	110,510
EXPENDITURES				
Recreation and cultural				
Administration	646,932	540,783	528,123	12,660
Professional and contractual services	14,000	14,569	14,469	100
Capital outlay				
Publications/circulations	63,000	69,026	64,050	4,976
Other	5,000	6,000	-	6,000
TOTAL EXPENDITURES	728,932	630,378	606,642	23,736
NET CHANGE IN FUND BALANCE	70,420	(11,743)	122,503	86,774
Fund balance, beginning of year	546,685	546,685	546,685	-0-
Fund balance, end of year	\$ 617,105	\$ 534,942	\$ 669,188	\$ 86,774

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Board of Trustees  
Flat River Community Library  
Greenville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Flat River Community Library as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Flat River Community Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Library rests with the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

## PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Flat River Community Library. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Library's annual financial statements and notes to the financial statements in accordance with GAAP. The Library relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Library consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

## MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of accrual accounting were proposed by the auditors. These misstatements were not detected by the Library's internal control over financial reporting.

State on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

## RECONCILIATION OF PROPERTY TAX LEVIES AND RECEIPTS

During our analysis of property tax revenue, we noted that the Library does not regularly reconcile the amounts levied with the property tax receipts received from the various taxing authorities. Management had indicated that such reconciliation is only performed if the receipts appear to be lower than the revenue anticipated to be generated by the levy. As a result, material overpayments could be received by the Library and go unnoticed.

We recommend that the Library request remittance advices accompany all future property tax collections from the various taxing authorities that provide sufficient details for the Library to reconcile the levies with the receipts by type of levy (i.e., operating vs. debt). The Library should calculate the amount of tax revenue that they should be receiving from each of the taxing authorities and compare that to the amounts actually received.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above as "Preparation of Financial Statements" and "Material Journal Entries Proposed by Auditors" are material weaknesses in internal control over financial reporting.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance and other matters:

### ESCHEAT UNCLAIMED PROPERTY

During our audit, it was noted that the Library had several outstanding checks listed on a bank reconciliation that was more than one (1) year old. The Michigan Public Act 29 of 1995 provides that the Library report and escheat outstanding checks (unclaimed property) to the State of Michigan in the year after they've been outstanding for more than one year.

We recommend the Library attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we recommend the Library review their unclaimed property and escheat funds to the State of Michigan as necessary.

### INVESTMENT POLICY REQUIREMENTS

During the course of our audit and through discussions with management, it was noted that the Library has not amended their investment policy to addresses various types of risks related to investments. This issue was noted and reported in our audit comments last year.

Deposit and investment resources often represent significant assets of the Library's governmental funds. These resources are necessary for the delivery of the Library's services and programs, or to carry out its fiduciary responsibilities. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40. In the absence of policies addressing the various types of investment risk, the notes to the financial statements are required to disclose that no such policies exist.

This report is intended solely for the information and use of management and Board of Trustees of the Flat River Community Library, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY P.C.  
Certified Public Accountants

October 19, 2007